

SCHOOLCRAFT COUNTY MEDICAL  
CARE FACILITY

FINANCIAL STATEMENTS

For the Years Ended  
September 30, 2008 and 2007

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

To the Schoolcraft County Department  
of Human Services Board  
Schoolcraft County Medical Care Facility  
Manistique, MI 49854

We have audited the accompanying statements of net assets of the Schoolcraft County Medical Care Facility (a component unit of Schoolcraft County, Michigan) as of September 30, 2008 and 2007 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Schoolcraft County Medical Care Facility and do not purport to, and do not, present fairly the financial position of the County of Schoolcraft, Michigan, as of September 30, 2008, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Medical Care Facility at September 30, 2008 and 2007 and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Schoolcraft County Department of  
Human Services Board  
Schoolcraft County Medical Care Facility

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Schoolcraft County Medical Care Facility. The accompanying schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

December 2, 2008

## **Schoolcraft County Medical Care Facility**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the Schoolcraft County Medical Care Facility's financial performance provides an overview of the Facility's financial activities for the year ended September 30, 2008. Please read it in conjunction with the financial statements, which begin on page 8.

#### **FINANCIAL HIGHLIGHTS**

Total assets for the Facility as a whole were reported at \$6,333,103 and \$6,021,942, as of September 30, 2008 and 2007, respectively. Total assets are comprised of 100% business-type activities.

During the year the Facility's total expenses were \$7,078,997, while revenues from all sources totaled \$7,381,496 resulting in an increase in net assets of \$302,499. This is compared with total expenses of \$6,912,735, total revenues of \$7,160,796 and an increase in net assets of \$248,061 for the year ended September 30, 2007.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility's finances.

#### **Reporting the Facility as a Whole**

One of the most important questions asked about the Facility's finances is "is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its' activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's net assets and changes in them. You can think of the Facility's net assets – the difference between assets and liabilities – as one way to measure the Facility's financial health, or financial position. Over time, increases or decreases in the Facility's net assets are one indicator of whether its' financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's resident base and the condition of the Facility's capital assets, to assess the overall financial health of the Facility.

## Schoolcraft County Medical Care Facility

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of the services it provides.

#### The Facility as a Whole

Table 1 provides a summary of the Facility's net assets as of September 30, 2008 and 2007.

**Table 1**  
**Net Assets**

	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,572,752	\$ 2,154,979
Restricted assets	256,509	248,479
Capital assets, net	<u>3,503,842</u>	<u>3,618,484</u>
Total Assets	<u>\$ 6,333,103</u>	<u>\$ 6,021,942</u>
Current liabilities	<u>\$ 424,249</u>	<u>\$ 428,470</u>
Net Assets:		
Invested in capital assets	\$ 3,503,842	\$ 3,618,484
Unrestricted	<u>2,405,012</u>	<u>1,974,988</u>
Total Net Assets	<u>\$ 5,908,854</u>	<u>\$ 5,593,472</u>

Net assets of the Facility's activities stood at \$5,908,854. Unrestricted net assets – the part of the net assets that could be used to finance day-to-day activities stood at \$2,405,012.

The \$2,405,013 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this years' operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (also see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

## Schoolcraft County Medical Care Facility

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Table 2**  
**Changes in Net Assets**

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Net resident service revenue	\$ 6,529,708	\$ 6,136,726
Other operating revenues	<u>832,705</u>	<u>1,013,335</u>
Total Operating Revenues	<u>7,362,413</u>	<u>7,150,061</u>
Operating expenses:		
Salaries	3,515,336	3,413,232
Other expenses	<u>3,563,661</u>	<u>3,499,503</u>
Total Operating Expenses	<u>7,078,997</u>	<u>6,912,735</u>
Operating Profit	283,416	237,326
Non-operating revenue		
Interest income	<u>19,083</u>	<u>10,735</u>
Increase in Net Assets	<u>302,499</u>	<u>248,061</u>
Net Assets, beginning, as previously stated	5,593,472	5,345,411
Prior period adjustment	<u>12,883</u>	<u>-</u>
Net Assets, beginning, as restated	<u>5,606,355</u>	<u>5,345,411</u>
Net Assets, end of year	<u>\$ 5,908,854</u>	<u>\$ 5,593,472</u>

The Facility's total revenues were \$7,381,496. The total cost of all programs and services was \$7,078,997 leaving an increase in net assets of \$302,499 as a result of fiscal year 2008 operations. The fiscal year increase in net assets is due primarily to the increase in resident occupancy. The Facility's census increased from an average census of 89.14% in 2007 to an average census of 92.10% in 2008.

#### **Economic Factors and Next Year's Budget**

The Facility's appointed officials and its' administration consider many factors when setting the fiscal year 2009 budget. One of those factors is the economy. The Facility is



## **Schoolcraft County Medical Care Facility**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

heavily dependent upon Medicaid revenue. With the current budget constraints facing the state and federal government the Facility can expect very little in enhanced Medicaid revenue. The FY2009 Medicaid rate was finalized when the budget was prepared, which increased from \$159.33 in 2008 to \$172.53 in 2009, but is subject to mid-year adjustments. On the expense side, normal increases in operating costs will negatively impact operating income.

The Facility's board and administration will closely monitor developments in the Medicaid rate setting process and adjust the budget accordingly.

#### **Contacting the Facility's Financial Management**

This financial report is designed to provide our taxpayers, creditors and other users with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Facility Administrator at the Schoolcraft County Medical Care Facility, 520 Main Street, Manistique, Michigan, 49854.



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SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

**STATEMENTS OF NET ASSETS**

September 30, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT ASSETS:		
Cash	\$1,771,317	\$1,783,467
Accounts receivable - Net of allowance for bad debts	772,630	300,609
Prepaid expenses	<u>28,805</u>	<u>70,894</u>
TOTAL CURRENT ASSETS	<u>2,572,752</u>	<u>2,154,979</u>
 RESTRICTED ASSETS:		
Cash	<u>256,509</u>	<u>248,479</u>
 PROPERTY AND EQUIPMENT - Net of accumulated depreciation of \$2,902,649 and \$2,838,337	<u>3,503,842</u>	<u>3,618,484</u>
TOTAL ASSETS	<u>\$6,333,103</u>	<u>\$6,021,942</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 104,490	\$ 82,644
Resident trust liability	7,754	3,634
Accrued liabilities:		
Salaries and related taxes	98,748	98,313
Compensated absences	195,622	226,244
Other	2,635	2,635
Third-party settlements payable	<u>15,000</u>	<u>15,000</u>
TOTAL CURRENT LIABILITIES	<u>424,249</u>	<u>428,470</u>
 NET ASSETS:		
Invested in capital assets - Net of related debt	3,503,842	3,618,484
Unrestricted	<u>2,405,012</u>	<u>1,974,988</u>
TOTAL NET ASSETS	<u>5,908,854</u>	<u>5,593,472</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$6,333,103</u>	<u>\$6,021,942</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

**STATEMENTS OF REVENUE, EXPENSES,  
AND CHANGES IN NET ASSETS**

For the years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE:		
Net resident service revenue	\$6,529,708	\$6,136,726
Quality assurance supplement	789,344	972,756
Other operating revenue	<u>43,361</u>	<u>40,579</u>
TOTAL OPERATING REVENUE	<u>7,362,413</u>	<u>7,150,061</u>
OPERATING EXPENSES:		
Salaries	3,515,336	3,413,232
Other expenses	<u>3,563,661</u>	<u>3,499,503</u>
TOTAL OPERATING EXPENSES	<u>7,078,997</u>	<u>6,912,735</u>
Operating Income (Loss)	283,416	237,326
NON-OPERATING REVENUE:		
Interest income	<u>19,083</u>	<u>10,735</u>
Excess of Revenue (Expenses)	<u>302,499</u>	<u>248,061</u>
Net Assets - beginning, as previously stated	5,593,472	5,345,411
Prior period adjustment	<u>12,883</u>	<u>-</u>
Net Assets - Beginning of year, as restated	<u>5,606,355</u>	<u>5,345,411</u>
NET ASSETS - END OF YEAR	<u>\$5,908,854</u>	<u>\$5,593,472</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

**STATEMENTS OF CASH FLOWS**

For the years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents and third-party payors	\$6,890,392	\$7,390,114
Cash paid to employees	(3,545,523)	(3,406,711)
Cash paid to suppliers	<u>(3,310,223)</u>	<u>(3,390,227)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>34,646</u>	<u>593,176</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>19,083</u>	<u>10,735</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:		
Purchase of property and equipment	<u>(57,858)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(4,129)	603,911
Cash - beginning of year	<u>2,031,955</u>	<u>1,428,044</u>
CASH - END OF YEAR	<u>\$2,027,826</u>	<u>\$2,031,955</u>
A reconciliation of operating income (loss) to cash from operating activities is as follows:		
Operating income (loss)	\$ 283,415	\$ 237,326
Adjustments to reconcile income (loss) to net cash from operating activities:		
Depreciation	185,383	194,366
Loss on disposal of property and equipment	-	1,634
(Increase) decrease in assets:		
Accounts receivable	(472,021)	240,053
Prepaid expenses	42,089	(19,696)
Increase (decrease) in liabilities:		
Accounts payable	25,966	(33,949)
Accrued liabilities	<u>(30,186)</u>	<u>(26,558)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 34,646</u>	<u>\$ 593,176</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Schoolcraft County Medical Care Facility (the "Facility") is a component unit of the County of Schoolcraft.

The Facility is a 105 bed, long-term medical care unit owned and operated by Schoolcraft County (the "County"). It is governed by the Schoolcraft County Department of Human Services Board. The Board consists of three members, two of whom are appointed by the Schoolcraft County Board of Commissioners and one appointed by the Michigan governor. Further, the Schoolcraft County Department of Human Services Board approves the budget for the Facility and submits a copy to the Schoolcraft County Board of Commissioners.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed by a user charge, the Facility is accounted for as an Enterprise Fund, utilizing the full accrual method of accounting. The Facility applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued after November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

**A. Basis for Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*. The Facility now follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the Facility's financial activities. There was no impact to the net assets of the Facility in adopting GASB No. 34.

**B. Property and Equipment** - All property and equipment are valued at historical cost. Donated assets are recorded at the fair market value at the time of the donation. Depreciation on such fixed assets is charged as an expense on a straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

**C. Resident Trust Liability** - The Michigan Department of Treasury requires facilities to administer and account for monies of residents. The resident trust liability on the balance sheet represents resident trust fund deposits.

**D. Compensated Absences** - Sick and vacation pay is charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. **Net Assets** - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

F. **Net Resident Service Revenue** - Net resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Approximately 84% in 2008 and 85% in 2007 of the total daily room revenue from resident services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Facility's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates based on clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid - Services rendered to Medicaid program beneficiaries are reimbursed on a per diem basis based on a cost reimbursement methodology.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.



SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Property Taxes** - The Facility has a two mill levy for maintenance of effort (MOE). The taxes are levied on December 1 of each year. On February 28 of each year, the taxes collected are transferred to the millage fund. MOE is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. The County pays MOE directly to the State from the millage fund and accounts for the property tax collection and MOE payments.

In 1995, Schoolcraft County had a millage levy for the payment of \$1,900,000 bond. Proceeds have been used for an addition to and renovation of the Facility. Once the construction was completed, the asset was transferred to the Facility. The County paid the construction costs with property tax revenue received. At September 30, 2008 and 2007, the bond balance was \$1,105,000 and \$1,215,000, respectively. Both the property tax revenue and bond are accounted for by the County.

**H. Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**I. Reclassification** - Certain reclassifications have been made in the 2007 comparative totals to conform to the reclassifications used in 2008. Any reclassifications made were not material to the financial statements.

**J. Restricted Assets** - When transactions occur that could be taken from either restricted or unrestricted assets it is the Facility's policy to use restricted assets first.

**NOTE B - CASH**

All of the Facility's cash is held by the Schoolcraft County Treasurer with the exception of \$200 of petty cash and the Resident Trust Account. The Resident Trust Account had a book balance of \$7,754 and \$3,634 on September 30, 2008 and 2007, respectively, and a bank balance of the same in both years. Of the Resident Trust bank balance 100% was covered by FDIC insurance.



SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

**NOTE B - CASH (continued)**

Because the remainder of the cash balances are held by the Schoolcraft County Treasurer the insurability and risk disclosures for those balances are contained in the Schoolcraft County audit report.

**NOTE C - ACCOUNTS RECEIVABLE**

The details of accounts receivable are set forth below:

	<u>2008</u>	<u>2007</u>
Resident receivables	\$ 609,300	\$ 519,129
Less allowances for uncollectible accounts	<u>(35,000)</u>	<u>(35,000)</u>
Resident accounts receivable	574,300	484,129
Medicaid interim payment reconciliation	<u>198,330</u>	<u>(183,520)</u>
Net resident accounts receivable	<u>\$ 772,630</u>	<u>\$ 300,609</u>

Medicaid interim payment reconciliation includes net Medicaid charges processed by Medicaid which are greater than (less than) the interim payments made by Medicaid.

**NOTE D - PROPERTY AND EQUIPMENT**

Cost of property and equipment and depreciable lives are summarized as follows:

<u>2008</u>	<u>Depreciable Life-Years</u>	<u>2007</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>2008</u>
Cost:					
Land improvements	-	\$ 37,666	\$ -	\$ -	\$ 37,666
Building	5-40	5,486,402	23,205	3,309	5,506,298
Furniture, fixtures, and equipment	3-20	<u>932,753</u>	<u>48,214</u>	<u>118,440</u>	<u>862,527</u>
TOTAL		<u>6,456,821</u>	<u>\$ 71,419</u>	<u>\$ 121,749</u>	<u>6,406,491</u>
Accumulated depreciation:					
Land improvements		37,666	\$ -	\$ -	37,666
Building		2,123,781	144,422	2,631	2,265,572
Furniture, fixtures, and equipment		<u>676,890</u>	<u>40,961</u>	<u>118,440</u>	<u>599,411</u>
TOTAL		<u>2,838,337</u>	<u>\$ 185,383</u>	<u>\$ 121,071</u>	<u>2,902,649</u>
Net carrying amount		<u>\$3,618,484</u>			<u>\$3,503,842</u>

**SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY**

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2008 and 2007

**NOTE D - PROPERTY AND EQUIPMENT (continued)**

<u>2007</u>	<u>Depreciable Life-Years</u>	<u>2006</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>2007</u>
Cost:					
Land improvements	-	\$ 37,666	\$ -	\$ -	\$ 37,666
Building	5-40	5,486,402	-	-	5,486,402
Furniture, fixtures, and equipment	3-20	950,218	-	17,465	932,753
TOTAL		6,474,286	\$ -	\$ 17,465	6,456,821
Accumulated depreciation:					
Land improvements		37,488	\$ 178	\$ -	37,666
Building		1,974,188	149,593	-	2,123,781
Furniture, fixtures, and equipment		648,126	44,595	15,831	676,890
TOTAL		2,659,802	\$ 194,366	\$ 15,831	2,838,337
Net carrying amount		\$3,814,484			\$3,618,484

**NOTE E - ACCRUED VACATION, SICK AND COMPENSATED TIME OFF**

The Facility's policies regarding vacation, sick and compensated time off (CTO) allow non-union employees to accumulate earned but unused vacation and sick time, and for union employees to accumulate earned but unused CTO. The liability for these compensated absences is recorded as an accrued liability on the Statement of Net Assets. As of September 30, 2008, the total accrued vacation, sick and CTO was \$20,589, \$75,107 and \$99,926, respectively. As of September 30, 2007, the total accrued vacation, sick and CTO was \$22,428, \$90,232 and \$113,584, respectively.

**NOTE F - DEFINED BENEFIT MULTI-EMPLOYER PENSION PLAN**

**Plan Description** - The Facility participates in the Schoolcraft County Pension Plan, which is a multiple-employer defined pension plan that covers all full-time and part-time employees of the Facility who have completed six months of service and elect to receive coverage. The plan provides retirement benefits, as well as death and disability benefits, to plan members and their beneficiaries. At December 31, 2007, the date of the most recent actuarial valuation, membership consisted of 30 retirees and beneficiaries currently receiving benefits and 7 terminated employees entitled to benefits but not yet receiving them, and 102 current active employees. The plan does not issue a separate financial report specifically for the Facility.

**Funding Policy** - The obligation to contribute to and maintain the system for covered employees was established in the Schoolcraft County Pension Plan, and requires a contribution from the Facility equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The Facility's contributions to the plan for the plan years ended September 30, 2008 and 2007 were \$345,496 and \$346,017, respectively.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

**NOTE F - DEFINED BENEFIT MULTI-EMPLOYER PENSION PLAN (continued)**

**Annual Pension Cost** - The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal cost funding method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year attributable to inflation, and (c) additional projected salary increases of 0.0% to approximately 8% per year, depending on age, attributable to seniority/merit.

Three-year trend information for the Schoolcraft County Pension Plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2005	\$ 618,136	100.00	\$ -
September 30, 2006	637,645	100.00	-
September 30, 2007	671,094	100.00	-

**NOTE G - RISK MANAGEMENT**

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims, workers' compensation, and employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known outstanding or pending claims at September 30, 2008 or 2007.

**NOTE H - PRIOR PERIOD ADJUSTMENT**

During the fiscal year ended September 30, 2008, a prior period adjustment of \$12,883 was made to reclassify prior period expenses as fixed assets.

**SUPPLEMENTAL INFORMATION**

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

SCHEDULE OF NET RESIDENT SERVICE REVENUE

For the years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
DAILY ROOM REVENUE:		
Medicaid	\$4,642,700	\$4,499,390
Medicare	435,030	389,300
Private pay and other	<u>951,910</u>	<u>839,110</u>
TOTAL DAILY ROOM REVENUE	<u>6,029,640</u>	<u>5,727,800</u>
ANCILLARY REVENUE:		
Drugs charged to residents	71,953	109,263
Physical therapy	182,918	106,628
Occupational therapy	188,920	107,470
Speech therapy	40,441	57,403
Medical supplies	36,652	37,295
Laboratory	51,722	46,916
Radiology	<u>18,967</u>	<u>19,462</u>
TOTAL ANCILLARY REVENUE	<u>591,573</u>	<u>484,437</u>
TOTAL RESIDENT REVENUE	<u>6,621,213</u>	<u>6,212,237</u>
REVENUE DEDUCTIONS AND SETTLEMENTS:		
Provisions for contractual discounts	(224,955)	(169,013)
Third-party settlements	<u>133,450</u>	<u>93,502</u>
TOTAL REVENUE DEDUCTIONS AND SETTLEMENTS	<u>(91,505)</u>	<u>(75,511)</u>
NET RESIDENT SERVICE REVENUE	<u>\$6,529,708</u>	<u>\$6,136,726</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

**SCHEDULE OF OPERATING EXPENSES**

For the years ended September 30, 2008 and 2007

	<u>2008</u>			<u>2007</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Administration	\$ 230,804	\$ 215,284	\$ 446,088	\$ 445,457
Maintenance	119,576	114,471	234,047	219,630
Laundry	-	132,935	132,935	128,886
Housekeeping	257,913	22,338	280,251	270,458
Dietary	325,978	470,767	796,745	768,597
Pharmacy	-	85,018	85,018	121,455
Nursing	2,323,236	94,830	2,418,066	2,365,933
Physical therapy	33,958	133,510	167,468	137,259
Occupational therapy	-	137,291	137,291	70,916
Speech therapy	-	20,634	20,634	19,370
Social services	79,504	768	80,272	89,595
Diversional therapy	144,367	4,933	149,300	141,225
Laboratory	-	34,342	34,342	32,595
Radiology	-	11,595	11,595	13,938
Utilities	-	202,051	202,051	183,424
Fringe benefits	-	1,074,989	1,074,989	1,072,575
Depreciation	-	185,383	185,383	194,366
Miscellaneous				
- Refunds	-	16,147	16,147	11,739
- Cost Settlement	-	-	-	69,437
- Provider Tax Expense	-	606,375	606,375	554,075
- Other	-	-	-	1,805
TOTALS - 2008	<u>\$3,515,336</u>	<u>\$3,563,661</u>	<u>\$7,078,997</u>	
TOTALS - 2007	<u>\$3,413,232</u>	<u>\$3,499,503</u>		<u>\$6,912,735</u>

See accompanying notes to financial statements.





**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA

December 2, 2008

To the Schoolcraft County Department  
of Human Services Board  
Schoolcraft County Medical Care Facility  
Manistique, Michigan 49854

We have audited the financial statements of the Schoolcraft County Medical Care Facility for the year ended September 30, 2008, and have issued our report thereon dated December 2, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 26, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on November 26, 2007.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Schoolcraft County Medical Care Facility are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was:

Management's estimate of the useful lives of fixed assets is based on experience with similar assets. We evaluated the key factors and assumptions used to develop the estimate of the useful lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible receivables is based on experience with the actual collection of prior receivables. We evaluated the key factors and assumptions used to develop the estimate for the allowance for uncollectible receivables in determining that it is reasonable in relation to the financial statements taken as a whole.



### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The misstatements detected as a result of audit procedures and corrected by management were material to the financial statements taken as a whole, and related to the appropriate recording of payables and prepaid expenses.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 2, 2008.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors, and management of the Schoolcraft County Medical Care Facility and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

## **SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY**

### **COMMENTS AND RECOMMENDATIONS**

September 30, 2008

#### **JOURNAL ENTRY APPROVAL**

During our review of the journal entries made during the year we noted that while internal review and approval exists, it is not noted in writing on the journal entries. We recommend that review and approval of the journal entries be indicated by a signature or initials on the journal entry page.

#### **ACCOUNTS RECEIVABLE**

During our accounts receivable testing we noted a receivable for Blue Cross Blue Shield in the amount of \$12,030.43. The amount was from a year prior to 2005 and could not be specifically identified to a patient. We recommend investigating this balance and writing it off or rebilling it as appropriate.